

April 19, 2002

Council of the District of Columbia

HEARING ON THE BUDGET REQUESTS OF THE DC PUBLIC SCHOOLS, DC CHARTER SCHOOLS,
BOARD OF EDUCATION, AND PUBLIC CHARTER SCHOOL BOARD FOR FISCAL YEAR 2003

**Testimony of Natwar M. Gandhi, Chief Financial Officer, before the Committee on
Education, Libraries & Recreation**

Good afternoon, Mr. Chairman and members of the committee. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia. With me today to testify on the matter of the financial status of DC Public Schools (DCPS) is Bert Molina, Deputy Chief Financial Officer for Budget and Planning. Absent because of an out-of-town commitment, but largely responsible for the information I will share with you today, is Deloras Shepherd. Deloras has been doing double duty as Chief Financial Officer for the Department of Human Services and as my troubleshooter at the DCPS Office of the Chief Financial Officer.

Let me first say that all of the financial information I will share with you today has been provided to the Chief Operating Officer of DCPS. I am sorry to report that it has taken us some time to develop what we believe is a comprehensive, accurate and detailed status report for DCPS. Although high level financial information has been provided to DCPS management since January of this year, the information provided this week is the first detailed report on all spending control and responsibility centers.

While financial data is not the only tool available to assess operational performance, management has a right to expect timely and accurate financials. This is particularly true when an institution is under stress, as is the case with DCPS. The events of last summer and fall have taken their toll on the CFO organization at DCPS. It is clear that the previous management of that office was not following sound financial practices. The organization now in place must be largely rebuilt from the ground up – in terms of leadership, policies and business practices. Both the Office of Budget and Planning (OBP) and the Office of Financial Operations and Systems (OFOS) have made their staffs available until this rebuilding task can begin under the leadership of the newly selected DCPS CFO. Both OBP and OFOS staffs have provided the leadership needed to stabilize an organization that is clearly under-performing during this interim period.

Good News

Here is the good news as I see it. The Superintendent and I have selected a new DCPS CFO, Robert Morales, who reports for duty on April 22. He is an experienced financial executive with a background in the financial management of schools. Both of us apprised him of the challenges before him.

Using staff from a variety of CFO organizations, we have brought DCPS accounts payable postings up-to-date so that the information in the accounting system, SOAR, can be relied on as an accurate portrayal of the current financial picture. Ms. Shepherd has also undertaken an effort to ensure expenditures are charged to the correct revenue source – local, federal or other.

As a result, I can now report that DCPS Medicaid receipts are on target with the revised FY 2002 estimate of \$15.8 million made by my office. This is well below the original \$43.7 million contained in the FY 2002 DCPS budget, but it is consistent with the spending pressure information we provided to the Mayor and the Council. I am very hopeful that we will not see a further problem with DCPS Medicaid revenue estimates this year.

Also heartening is the fact that attorney fees related to special education cases so far appear to be in line with the funds allocated to this expense in the DCPS budget, as revised by the Mayor and the Council. However, this is an area that requires close attention. From here forward, we will be able to provide DCPS management with this and other detailed expenditure information necessary for them to assess their efforts to constrain spending to appropriated amounts.

Current Budget Picture

The revised FY 2002 DCPS budget, presuming no adverse congressional action, is \$751.1 million. Should spending continue on its current pattern until the end of the fiscal year, our analysis, which we provided to Mr. Erste, is that DCPS would exceed its revised authorized budget by \$20 million. This is the minimum amount DCPS must save in order to stay in balance with budget availability. Prudence would dictate additional amounts beyond this be saved for unanticipated events.

In general, the data indicate to us that the spending and staffing controls DCPS has implemented are beginning to take hold, and that correct posting of charges to revenue sources is relieving pressure on the local budget. I should point out several caveats. First, financial projections in DCPS call for much more refined tools than those we currently have. Because of spending variations tied to the school year, DCPS needs a sophisticated spending model. This estimate is the best we can do with the tools we have now, but it is subject to variance in either direction.

It is also possible that DCPS will be fully successful in curtailing its spending by the \$34.8 million goal it set for itself. Were they successful in every respect, DCPS would have available approximately \$15 million to reallocate to other purposes. However, the financial information we have today, which tracks spending through February, does not suggest that these savings are being realized, particularly in the big categories of special education and central office transformation. If they have, other expenses have overtaken them. In the final analysis, what matters to me as Chief Financial Officer is not whether savings have been realized or not, but whether an organization is within its budget allotment – that's the bottom line.

To help both financial and management staff assess whether they are on target or not, we have instituted quarterly apportionment of funds for DCPS. This is not a punishment for DCPS, and we intend to transition District agencies to quarterly apportionments in stages. The value of this system is that it forces both financial and program managers to plan together to assess how program actions will affect spending on a monthly basis. Ultimately, this will result in better program planning, more analysis of cost drivers and better budget estimates.

Spending Problem Areas

In anticipation of Council approval of the plan for mitigating spending pressures, we worked with DCPS management to allocate the additional funds to DCPS responsibility centers. These allocations were netted against savings that DCPS had identified in its plan presented to the Mayor and the Council. Consequently, the new allocations are controlling and presume savings will be realized in the areas allocated. There are some adjustments to the detailed spending reports that still need to be made. For example, we need to allocate, specifically by responsibility center, charges that are to be moved from local to federal revenue.

Among the 22 principal responsibility centers within DCPS, the broad areas for focus are clear.

- *Special Education NPS.* Costs are running 5% over budget and could generate as much as a \$9 million problem. We still need to look more closely, but I think we will find these are primarily transportation costs in excess of plan.
- *Elementary/Middle Schools.* Both of these responsibility centers are running ahead of budget. This will be mitigated once adjustments are made for transfers and pay raise funds are distributed. However, staffing levels need to be reassessed.
- *Operations and Maintenance.* This responsibility center includes central administrative activities, an area targeted for significant streamlining. Unless this streamlining occurs at the necessary levels, this area could exceed its PS allocation by \$9 million or more.

My office is committed to working closely with DCPS management and the newly appointed DCPS CFO to place them on a sound financial track. It is in all of our best interests to do so. After all, DCPS and

charter schools account for over 20% of the District's budget and over 33% of its FTEs. Any effort to manage District expenditures must start with this component of the budget.

This concludes my testimony. Mr. Molina and I will be happy to answer your questions to the best of our ability.